

MEMORANDUM

DATE: September 27, 2011

TO: The Board of Supervisors

FROM: John E. McDonald, Manager, Financial and Management Services

SUBJECT: Qualified School Construction Bonds

Initially the Jamestown High School Multi-use Project, including an auxiliary gymnasium, was approved for financing in the County's FY 2010 Capital Budget at a cost of \$2,489,000. The County's share of that project (\$2,275,000) was in the adopted FY 2010 budget, to be funded with borrowed money either using lease revenue bond financing or the Virginia Public School Authority (VPSA).

Subsequent discussions by the Board of Supervisors indicated a desire to avoid borrowing for both this project and for the Warhill Community Gymnasium, also approved with debt financing in the FY 2010 Capital Budget. With this guidance both County and School staff began to search for alternatives for the Jamestown High School project and the schools submitted an application to the State under a Federal allocation of stimulus funds. After failing to receive an allocation in the initial round in 2010, a \$1 million allocation was approved by the Governor's office this past April for the Jamestown High School project.

The allocation came in the form of Qualified School Construction Bond (QSCB) funds. While it still would be a County indebtedness, all interest paid on the bonds would be fully reimbursed under a Federal education facilities improvement program. For County taxpayers it represents an opportunity for interest-free financing. The borrowing would be done through the VPSA in its fall 2011 bond sale. The interest on the bonds is taxable and the \$1 million in borrowing will not count against the County's annual limit of \$10 million for bank-qualified (BQ) borrowing. The BQ feature was critical in obtaining an interest rate of 2.18 percent for the public facility financing approved by the Board earlier this month.

Another advantage of the QSCB program is that the annual debt service payments would be escrowed in an interest-earning account with a one-time loan repayment in 20 years. As a result, the County would receive \$1 million and pay less than that over 20 years to pay it off. Depending on investment returns over the next 20 years, the County could end up contributing only \$700,000 to the escrow account to repay the full \$1 million.

The County and Schools have identified \$2,275,000 in additional revenue (including State sales tax receipts in excess of the budget that have previously been appropriated by the Board) in residual school capital project balances and in under spending in the School operating budget. These funds are sufficient to finance the project without the QSCB borrowing. Construction actually commenced with the last day of school in June to take advantage of a summer time-frame without students.

Budget adjustments in the County's School Capital Budget will be advertised for a public hearing later this fall to eliminate either: 1) all previously budgeted borrowing and the associated spending; OR 2) all previously budgeted borrowing and spending except the QSCB proceeds. If the Board approves this borrowing, there will be an additional \$1 million in reallocated County cash that will be added to the County's Capital Contingency fund - an additional resource as the Board considers the FY 2013 budget next spring.

Staff acknowledges previous Board guidance to avoid, if possible, incurring debt for this project. Consistent with the Fiscal prudence guidance of the Board, we recommend accepting the \$1 million allocation of interest-free QSCB financing that will be repaid by spending less than we actually borrow. Given the QSCB terms and conditions, we are obligated to present this to you for consideration.

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The Williamsburg-James City County School Board will most likely adopt a concurring resolution at its meeting on September 20, 2011, as a necessary step in accepting the allocation and in applying to the VPSA.

Staff recommends approval of the attached resolution, which has been prepared by Mr. Stephen Johson, the County's bond counsel.

John E. McDonald

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Attachment